

HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND - PROPOSITION 39
AUDIT REPORT
JUNE 30, 2006

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND - PROPOSITION 39
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Wilkinson Hadley & Co. LLP
CPAs and Advisors

250 E. Douglas Ave., Suite 200 ♦ El Cajon, CA 92020
Tel (619) 447-6700 ♦ Fax (619) 447-6707

INDEPENDENT AUDITOR'S REPORT

**Board of Directors and
Citizens' Oversight Committee
Holtville Unified School District
Holtville, California**

We have audited the accompanying financial statements of the Building Fund - Proposition 39 of Holtville Unified School District as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governments* issued by the American Institute of Certified Public Accountants and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note B, the financial statements present only the Building Fund - Proposition 39 and are not intended to present fairly the financial position and results of operations of Holtville Unified School District in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Building Fund - Proposition 39 of Holtville Unified School District as of June 30, 2006, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 29, 2007 on our consideration of the District's internal control over the Building Fund - Proposition 39 financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts governing the Fund. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Wilkinson Hadley & Co., LLP

El Cajon, California
January 29, 2007

FINANCIAL STATEMENTS

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND - PROPOSITION 39
BALANCE SHEET
JUNE 30, 2006**

ASSETS

CURRENT ASSETS

Cash in county treasury	\$ 49,445
Accounts receivable	<u>332</u>

TOTAL ASSETS \$ 49,777

LIABILITIES AND FUND BALANCE

LIABILITIES \$ -

FUND BALANCE

Designated for capital projects	<u>49,777</u>
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TOTAL LIABILITIES AND FUND BALANCE \$ 49,777

The accompanying notes are an integral part of these financial statements.

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND - PROPOSITION 39
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

REVENUES	
Interest income	\$ <u>7,845</u>
EXPENDITURES	
Services and other operating expenses	382,603
Capital outlay	<u>398,952</u>
TOTAL EXPENDITURES	<u>781,555</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(773,710)</u>
NET CHANGE IN FUND BALANCE	(773,710)
FUND BALANCE, BEGINNING OF YEAR	<u>823,487</u>
FUND BALANCE, END OF YEAR	<u>\$ 49,777</u>

The accompanying notes are an integral part of these financial statements.

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND - PROPOSITION 39
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Interest income	\$ 15,000	\$ 7,845	\$ (7,155)
EXPENDITURES			
Services and other operating expenses	400,000	382,603	17,397
Capital outlay	<u>512,000</u>	<u>398,952</u>	<u>113,048</u>
TOTAL EXPENDITURES	<u>912,000</u>	<u>781,555</u>	<u>130,445</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(897,000)</u>	<u>(773,710)</u>	<u>123,290</u>
NET CHANGE IN FUND BALANCE	(897,000)	(773,710)	123,290
FUND BALANCE, BEGINNING OF YEAR	<u>823,487</u>	<u>823,487</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ (73,513)</u>	<u>\$ 49,777</u>	<u>\$ 123,290</u>

The accompanying notes are an integral part of these financial statements.

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND – PROPOSITION 39
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

A. Definition of the Fund

In March 2003, the Building Fund - Proposition 39 was formed to account for the financing improvement and modernization of current schools for the Holtville Unified School District (District), from the issuance of Election 2002, Series 2003 and Series 2005 General Obligation Bonds. The fund is one of the Capital Project Funds of the District.

B. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB) and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

Fund Structure

The accompanying financial statements are used to account for the transactions of the Building Fund - Proposition 39 as defined in Note A and are not intended to present fairly the financial position and results of operations of Holtville Unified School District in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The Building Fund - Proposition 39 of the District is maintained on the modified accrual basis of accounting. Its revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred (when goods are received or services rendered).

Budgets and Budgetary Accounting

The Board of Trustees adopts an operating budget no later than July 1 in accordance with state law. This budget is revised by the Board of Trustees during the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption. It is this final revised budget that is presented in these financial statements. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND – PROPOSITION 39
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

B. Summary of Significant Accounting Policies (Continued)

Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated at June 30 since they do not constitute expenditures or liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash in County Treasury

In accordance with Education Code §41001, the District maintains a substantial amount of its cash in the Imperial County Treasury. The County pools these funds with those of other districts in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value, in accordance with the requirements of GASB Statement No. 31.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code §53648 et.seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with the Imperial County Treasury was not available.

Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund receivables/payables. Accounts receivable are recorded net of estimated uncollectible amounts. There were no significant receivables that are not scheduled for collection within one year of year-end.

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND – PROPOSITION 39
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

B. Summary of Significant Accounting Policies (Continued)

Reservation of Fund Balances

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

Capital and Long-Term Debt

The accounting and reporting treatment applied to the capital assets and long term liabilities associated with the Building Fund - Proposition 39 are determined by its measurement focus. The Building Fund - Proposition 39 is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheet. The reported fund balances is considered a measure of “available spendable resources”. Thus, the capital assets and long-term liabilities associated with the Building Fund - Proposition 39 are accounted for in the basic financial statements of the Holtville Unified School District.

C. Cash in County Treasury

The District maintains significantly all of its cash in the Imperial County Treasury as part of the common investment pool. As of June 30, 2006, the portion of cash in county treasury attributed to the Building Fund - Proposition 39 was \$49,445. The fair value of the Fund’s portion of this pool as of that date, as provided by the pool sponsor, was \$49,445. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

The county is restricted by Government Code §53635 pursuant to §53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer’s investment pool, bankers’ acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

D. Bonded Debt

In March 2003, the District authorized the sale and issuance of the General Obligation Bonds, Election of 2002, Series 2003 in the amount of \$2,500,000. Proceeds from the sale of the bonds will be used for the purpose of financing improvement and modernization of current schools for the Holtville Unified School District. Interest is payable February 1 and August 1, commencing February 1, 2004 at rates ranging from 2.00% to 6.00%. Principal is payable August 1, commencing August 1, 2004 and through the maturity date August 1, 2027.

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND – PROPOSITION 39
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006
(Continued)**

D. Bonded Debt (Continued)

In June 2005, the District authorized the sale and issuance of the General Obligation Bonds, Election of 2002, Series 2005 in the amount of \$3,000,000. Proceeds from the sale of the bonds will be used for the purpose of financing improvement and modernization of current schools for the Holtville Unified School District. Interest is payable February 1 and August 1, commencing February 1, 2006 at rates ranging from 3.00% to 5.00%. Principal is payable August 1 commencing August 1, 2006 and through the maturity date August 1, 2034.

The outstanding bonded debt of the District as of June 30, 2006 is as follows:

<u>Date of Issuance</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amounts Outstanding Issue</u>	<u>Amounts Outstanding July 1, 2004</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Amounts Outstanding June 30, 2005</u>
2003	2.00%-6.00%	2027	\$ 2,500,000	\$ 2,475,000	\$ -	\$ 165,000	\$ 2,310,000
2005	3.00%-5.00%	2034	3,000,000	3,000,000	-	-	3,000,000
Total			<u>\$ 5,500,000</u>	<u>\$ 5,475,000</u>	<u>\$ -</u>	<u>\$ 165,000</u>	<u>\$ 5,310,000</u>

The annual requirements to amortize the general obligation bonds payable outstanding as of June 30, 2006 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	40,000	242,148	282,148
2008	30,000	241,173	271,173
2009	40,000	240,215	280,215
2010	60,000	238,783	298,783
2011	60,000	236,983	296,983
2012-2016	465,000	1,142,148	1,607,148
2017-2021	745,000	1,023,694	1,768,694
2022-2026	1,110,000	817,645	1,927,645
2027-2031	1,430,000	497,188	1,927,188
2032-2036	<u>1,330,000</u>	<u>136,750</u>	<u>1,466,750</u>
Totals	<u>5,310,000</u>	<u>4,816,727</u>	<u>10,126,727</u>

SUPPLEMENTAL INFORMATION



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CPAs and Advisors

250 E. Douglas Ave., Suite 200 ♦ El Cajon, CA 92020
Tel (619) 447-6700 ♦ Fax (619) 447-6707

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Board of Directors and
Citizens Oversight Committee
Holtville Unified School District
Holtville, California**

We have audited the financial statements as of and for the year ended June 30, 2006 and have issued our report thereon dated January 29, 2007 for the Building Fund - Proposition 39 of the Holtville Unified School District. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's Building Fund - Proposition 39 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; however, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration on the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information of the Board of Directors, management, and the Citizens Oversight Committee; however, this report is a matter of public record.

Wilkinson Hadley & Co., LLP
El Cajon, California
January 29, 2007



Wilkinson Hadley & Co. LLP
CPAs and Advisors

250 E. Douglas Ave., Suite 200 ♦ El Cajon, CA 92020
Tel (619) 447-6700 ♦ Fax (619) 447-6707

INDEPENDENT AUDITOR'S REPORT ON PERFORMANCE

**Board of Directors and
Citizens Oversight Committee
Holtville Unified School District
Holtville, California**

We have audited the financial statements of the Building Fund - Proposition 39 of the Holtville Unified School District (District) as of and for the year ended June 30, 2006 and have issued our report thereon dated January 29, 2007. Our audit was made in accordance with auditing standards generally accepted in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the General Obligation Bonds for the fiscal year ended June 30, 2006. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the General Obligation Bonds were only used for the purposes set forth in the ballot measure and not for any other purpose, including teacher and administrator salaries and other school operating expenses.
- The Board of Directors of the District, in establishing the approved projects set forth in the ballot measure, evaluated the safety, class size reduction, enrollment growth, and information technology needs of the District.

Our audit of compliance made for the purposes set forth in the preceding paragraph of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the General Obligation Bonds proceeds listed and tested above.

This report is intended for the information of the Board of Directors, management and the Citizens Oversight Committee; however, this report is a matter of public record.

Wilkinson Hadley & Co., LLP

El Cajon, California
January 29, 2007

**HOLTVILLE UNIFIED SCHOOL DISTRICT
BUILDING FUND - PROPOSITION 39
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no findings or questioned costs related to the performance audit of the Bond Fund for the year ended June 30, 2006.